City of Lafayette Staff Report

For:	Lafayette City Council
By:	Steven Falk, City Manager
	Tracy Robinson, Administrative Services Director
Date Written:	April 8, 2009
Meeting Date:	April 13, 2009
Subject:	Mid-Year Budget Review

Introduction

Earlier this year the City Council, concerned about the City's financial picture in the face of the local and national recession, directed staff to integrate 4Q/2008 sales tax figures into a budget forecast and to present findings to the Council. This memo describes these findings and presents an updated five-year forecast for your consideration. The model suggests that, while the City will meets its reserve standard and $1M capital contribution goals for the next few years, rising police costs are a serious concern.

Sources

Sales Taxes: Staff is relieved to report that, while many parts of the nation and state have experienced deep declines in retail sales, Lafayette's sales tax revenues remained relatively steady through calendar year 2008, ending just $50,000 less than the prior year, or down less than 2% (see Table A, below).

Table A
Sales Tax Revenues in Lafayette

2007	2008	Difference	% Change
$2,601,857	$2,552,882	-$48,975	-1.9%

For the purposes of the five year forecast, staff has conservatively estimated that sales taxes will decline not by 2%, but by 5% for FY 08/09. We then predict a slow recovery in retail sales, with 1% increases for each of the next four years.

Property Taxes: Property taxes are, of course, the largest single source of General Fund revenue for the City and declines in home sales represent the largest threat to the City's economic health. However, while home sales in Lafayette have slowed, the City has not seen the large number of foreclosures that have plagued other communities. Data suggests that fewer than 1% of all homes in Lafayette are in the various stages of foreclosure. In addition,

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the average assessed value of a residential property in Lafayette is $558,000, while the average sales price[1] was $1,128,714. This suggests that when older homes sell, their value on the property tax rolls doubles. An analysis of expected property tax increases given various rates of turnover shows that, even with slower sales, it is not unreasonable to expect at an annual increase of 5% for property tax revenue (including the statutory 2% increases):

Table B

Property Turnover Analysis

Rate	Parcels	AV Increase	% Increase
6%	523	$283,634,739	7.6%
5%	436	$236,452,669	6.7%
4%	349	$189,270,600	5.8%
3%	261	$141,546,208	4.8%

In fact, for FY 07/08, when seventeen of nineteen Contra Costa cities experienced declines in total assessed value, Lafayette had an increase of 6%.

Though staff believes that the data supports an assumption of 4% or 5% increases in Assessed Value for the next few years, we have used a more conservative 3% estimate.

Franchise Fees: One revenue increase that the City can count on is a ~$400,000 annual increase in garbage franchise fees. Recall that these fees were recently updated to compensate for the damage done by heavily loaded garbage trucks to Lafayette's roadways. Staff presumes that these funds will be used to fund the annual $1M contribution to the road repair program.

Uses

Police Expenses: Police expenses remain the single largest and most vexing expense for the City, now representing 43%[2] of the City's General Fund expenses, up from about 33% about ten years ago. Police expenses have recently increased about 9% annually due, in part, to the addition of one sergeant, one additional deputy, and a police services assistant.
Contract costs, however, will rise much more rapidly than that over the next few years as the County takes steps to fully fund its retirement program. In fact, the County recently directed that, beginning in FY 2010/11, contract cities will see increases in the retirement portion of the police budget of 15% annually for the following five consecutive years. At the end of that period, the county expects that Sheriff and contract cities will pay more for the retirement portion of sheriff services than for the officers on duty.

Even when presuming that all other costs rise at a more modest 3%, this adds up to an average cost increase for police services of 12% annually, beginning in 2010. Our model suggests that

[1] As of September 2008

[2] Includes the $300,000 General Fund transfer to the Supplemental Law Enforcement Fund.

if Lafayette continues to contract for Sheriff's services, by 2013, the City will spend more than $7M annually on police and that those expenses will total more than 50% of the City's entire general fund budget.

It is important for Lafayette to either slow increases in police costs before they overwhelm the General Fund or, alternatively, to generate new funding sources to cover police services. It is good and appropriate that the City, along with Orinda and Danville, has initiated a study to determine if there are other more cost effective ways to deliver police services.

The Model

Attached is an abbreviated budget model that captures Lafayette's major sources and uses and projects them out five years. Note that, given staff's assumptions, the model suggests that if the City continues to budget conservatively, it will live within its means, continue to meet the target reserve standard, and continue to contribute $1M to the annual pavement management program through FY 2012/13. Note also, however, that as police services costs increase, they will eventually swamp all other programs. It is unsustainable to have police costs rising at an average rate of 12% annually with revenues rising at an average rate of 2%.

Staff will project an image of the budget model onto the screen at the Council meeting, thus allowing the Council to make dynamic changes and see the impact of various budget assumptions over the long term.

Conclusions

There are a number of unknown factors that will affect the City's finances over the next 5 years. Most ominously, of course, are the rising police expenditures. However, given the City's conservative fiscal policies to date, Lafayette is in a good position to weather at least two to three years of a sluggish economy without significantly cutting services.

City of Lafayette
General Fund
Five Year Budget Model

	Actual 2007/8	Change	Projected 2008/9	Multiplier	Projected 2009/10	Multiplier	Projected 2010/11	Multiplier	Projected 2011/12	Multiplier	Projected 2012/13	Multiplier	Projected 2013/14
Estimated Beginning Fund Balance	8,707,865		9,985,667		9,481,083		9,972,777		9,824,132		8,957,085		7,284,449
Sources													
Property Tax	3,168,299	3%	3,277,435	3%	3,375,758	3%	3,477,031	3%	3,581,342	3%	3,688,782	3%	3,799,445
Sales Tax	2,645,234	-5%	2,506,088	1%	2,531,149	1%	2,556,460	1%	2,582,025	1%	2,607,845	1%	2,633,924
Revenue From State	1,951,821	2%	1,998,471	2%	2,038,440	2%	2,079,209	2%	2,120,793	2%	2,163,209	2%	2,206,473
Franchise Tax	1,140,008	2%	1,162,446	35%	1,569,302	2%	1,600,688	2%	1,632,702	2%	1,665,356	2%	1,698,663
Investments	1,168,892	-40%	700,000	0%	700,000	0%	700,000	0%	700,000	0%	700,000	0%	700,000
Hotel Tax	615,415	-9%	561,631	-5%	533,549	1%	538,885	1%	544,274	1%	549,717	1%	555,214
Property Transfer Tax	215,548	-14%	186,448	0%	186,448	0%	186,448	0%	186,448	0%	186,448	0%	186,448
Misc Fees, Fines, Revenue, COPS Grant	459,968	-1%	453,200	0%	453,200	0%	453,200	0%	453,200	0%	453,200	0%	453,200
Planning Fees	845,343	4%	880,000	0%	880,000	0%	880,000	0%	880,000	0%	880,000	0%	880,000
Total Sources	12,210,528	-4%	11,725,719	5%	12,267,847	2%	12,471,921	2%	12,680,784	2%	12,894,557	2%	13,113,367
Uses													
Police	3,945,770	9%	4,308,840	3%	4,438,105	12%	4,990,649	12%	5,611,985	12%	6,310,677	12%	7,096,357
Public Works	1,669,675	28%	2,142,184	5%	1,949,293	5%	2,046,758	5%	2,149,096	5%	2,256,551	5%	2,369,378
Administration	1,461,724	11%	1,624,019	5%	1,705,220	5%	1,790,481	5%	1,880,005	5%	1,974,005	5%	2,072,706
Council /Commissions	1,122,114	0%	1,126,712	4%	1,171,780	4%	1,218,652	4%	1,267,398	4%	1,318,094	4%	1,370,817
Planning & Engineering	619,095	21%	747,192	5%	784,552	5%	823,779	5%	864,968	5%	908,217	5%	953,627
Expenses	228,461	-33%	152,214	5%	159,825	5%	167,816	5%	176,207	5%	185,017	5%	194,268
Subtotal	9,046,839	12%	10,101,161	1%	10,208,775	8%	11,038,135	8%	11,949,659	8%	12,952,560	9%	14,057,153
General Fund Transfers to:													
Public Facilities	48,141	29%	62,141	2%	63,384	2%	64,651	2%	65,945	2%	67,263	2%	68,609
Capital Improvement Program	1,181,654	25%	1,480,926	0%	1,000,000	0%	1,000,000	0%	1,000,000	0%	1,000,000	0%	1,000,000
Library Operations	118,592	-3%	114,900	5%	120,645	5%	126,677	5%	133,011	5%	139,662	5%	146,645
Core Area Maintenance	275,000	-18%	225,000	5%	136,250	5%	143,063	5%	150,216	5%	157,726	5%	165,613
Insurance	200,000	0%	200,000	0%	200,000	0%	200,000	0%	200,000	0%	200,000	0%	200,000
Miscellaneous	62,500	-26%	46,175	2%	47,099	2%	48,040	2%	49,001	2%	49,981	2%	50,981
Subtotal	1,885,887	13%	2,129,142	-26%	1,567,377	1%	1,582,432	1%	1,598,173	1%	1,614,633	1%	1,631,847
Total Uses	10,932,726	12%	12,230,303	-4%	11,776,152	7%	12,620,567	7%	13,547,831	8%	14,567,193	8%	15,689,000
Surplus or Deficit?:	1,277,802		(504,584)		491,694		(148,645)		(867,047)		(1,672,636)		(2,575,633)
Projected Ending Fund Balance	9,985,667	-5%	9,481,083	5%	9,972,777	-1%	9,824,132	-9%	8,957,085	-19%	7,284,449	-35%	4,708,816
% of General Fund Expenditures	91%		78%		85%		78%		66%		50%		30%

To: Lafayette City Council
Lafayette Finance Review Committee
From: Lafayette Senior Services Commission
Re: Response to the Lafayette Finance Review Committee's Report
Dated: February 9, 2009

The Lafayette Senior Services Commission has reviewed the City of Lafayette Finance Review Committee's [LFRC] Final Report (December, 2008) and feels compelled to respond to the committee's cost reduction/revenue enhancement options for the Senior Services Center and the Senior Transportation Program (Appendix 1, page 36).

We find the action to possibly close the Senior Center if it is not self supporting in two years unacceptable. In anticipation of severe budget constraints for the City of Lafayette, Senior Services has already set in motion plans to begin charging an annual membership fee for participating seniors beginning July 1, 2009 and to continue to actively solicit donations for programs offered at the Center. In addition, the Senior Services Commission plans to explore other opportunities, such as grants and donations, to raise revenue for the Center.

Regarding the LFRC's service implication that the Community Center seniors "be directed to participate at other venues such as the senior community at the Lafayette Methodist Church", the Commission does not consider this an option since the two groups have distinctly different goals. The group that meets at the Methodist Church (non-affiliated) does so twice a month for lunch, bingo, bridge, entertainment, birthday celebrations, and intermittent field trips. Essentially, the group is a social club. Seniors who participate at the Community Center on any given day throughout the month choose from a wide variety of enrichment classes, informative programs, and support services that focus on seniors and address the concerns of their adult children. In addition, the Center acts as a "clearing house" for information and resources pertaining to seniors such as Federal, State and County services, local businesses, health and safety issues, transportation options, and current legislation that affects the elder population. Minimizing or eliminating these services and opportunities would be an injustice for Lafayette seniors who have given so much to the community.

To discontinue the Senior Transportation program would strike another blow to elders-in -need in the community, especially with the anticipated cutbacks in service routes for the County Connection and LINK. The cities served by the Lamorinda Spirit Van (Orinda, Moraga, and Lafayette) should each contribute equally, thereby sharing the cost of the program and ensuring all seniors who need a ride will have one.

The Lafayette Senior Services Commission understands and respects the difficult task before the City Council to set a budget while confronted with challenging financial constraints. Rest assured the Commission is working to find ways to assist the City Council in cutting costs for the Senior Center without destroying the vital services it provides. We feel it is in the best interest of the City to continue to support the elder citizens of Lafayette.

March 30, 2009

Lafayette City Council
City of Lafayette
P. O. Box 1968
Lafayette CA 94549

Re: Roads Task Force (RTF)

Honorable Mayor and City Council Members:

Upon reviewing the last memorandum on roads and drains from Tony Coe, dated February 19, 2009, which was presented to the CPAC and RTF, and based upon the subsequent discussions at those meetings, it became apparent that Lafayette was much closer to funding their Road and Drain repairs than had previously been determined. I believe the amount is now closer to $5 million than the $15 million in Mr. Coe's report. Further, it may be possible to eliminate the remaining balance with one of several ballot measure options, two of which would require less than a $50 per parcel tax, a very doable amount. My analysis and assumptions are as follows:

Beginning with Table 6 in Mr. Coe's February report, he estimates a balance of $15.5 million will be required by 2016 to fix the remaining roads and drains. This Table 6 assumes the City will continue to support the road and drain repairs at the rate of $1.7 million annually, which includes $400K of gas tax monies, $300K from Measure C/J, and $1 million from the General Fund. This Table 6 also assumes the City will receive the Palos Colorados funds of $2.5 million and use them for road and drain repair. Finally, Table 6 assumes repayment of $1 million of the RDA loan in 2011 for fixing roads. Presumably, the only amounts at risk in this Table 6 are the Palos Colorados Funds, and timing during this seven-year period may only impact the availability of such funds.

However, these figures do not include the use of the remaining RDA loan monies and interest for road and drain repair, which the RTF and City Council have discussed as a possible option. Nor do these figures include the recent increase in waste management (trash) fees, which would result in another $400K annually and are required for road repairs. In addition, these figures do not include any savings from bidding new contracts, which could amount to another $500K in 2009 and further savings in 2010. Also, the annual $138K interest from below the cap RDA loans is not included. There may be other future impact fees, grants and stimulus payments that could be used for road repairs, however I have not included them in the calculations below.

Utilizing simple math, if we reduce the $15.5 million in 2016 by the amount of the waste management fees over the next seven years, or $2.8 million (7 X $400K), then the remaining amount for road and drain repair becomes $12.7 million. Next, if we reduce the $12.7 million by the repayment of the RDA loan in 2016, plus accrued interest above the cap, or $6.2 million ($7.2 million in total less the $1 million already used previously by Mr. Coe in Table 6), the remaining road balance is now down to $6.5 million. Finally,

deducting a combination of dollar savings from contracts bid in 2009, or $500K, and use of the $1 million in below the cap interest (7 years X $138K), the remaining road balance is about $5 million. There may be other funds available to reduce the remaining balance, but if we just concentrate on this $5 million number, there are several ballot options:

1) The City could do a 30 year bond for $5 million at 6.5% interest that would result in a parcel tax of $37 per year; or
2) The City could do a pay-as-you go plan over five years at $1 million per year (if staff could handle the additional work load), and the parcel tax would be about $96 per year; or
3) The City could do a pay-as-you go plan over ten years at $500K per year (so staff could handle the extra workload), and the parcel tax would be about $48 per year. If this pay-as-you go option could start in 2011, the work could be completed by 2020.

In either of the above scenarios, given the modest amounts, the City and community would have an excellent chance of passing such a ballot measure in 2010 or 2011.

I would be happy to answer any questions that you may have, but with your commitment to fixing the failed roads and drains in Lafayette, I believe we now have the opportunity and the means to do so.

Very truly yours,

Guy Atwood
Roads Task Force member

[Calculation of available RDA loan funds per Tracy Robinson:
Balances at 6/30/09-

- Above the cap loans - $3.2 million
- Below the cap loans - $1.7 million Total $4.9 million
- Interest at 8%
- Total balance at 6/30/16 = $7.2 million, excluding below the cap interest]

Cc: Roads Task Force
Lafayette Homeowners Council
Lafayette Taxpayers Association